SERVING THE TOTAL FOODSERVICE INDUSTRY

JULY 22, 1992

RESTAURANTS & INSTITUTIONS

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1992 GROWTH LEADERS

Wendy's Jim Near

R&I EXECUTIVE OF THE YEAR

xxxx

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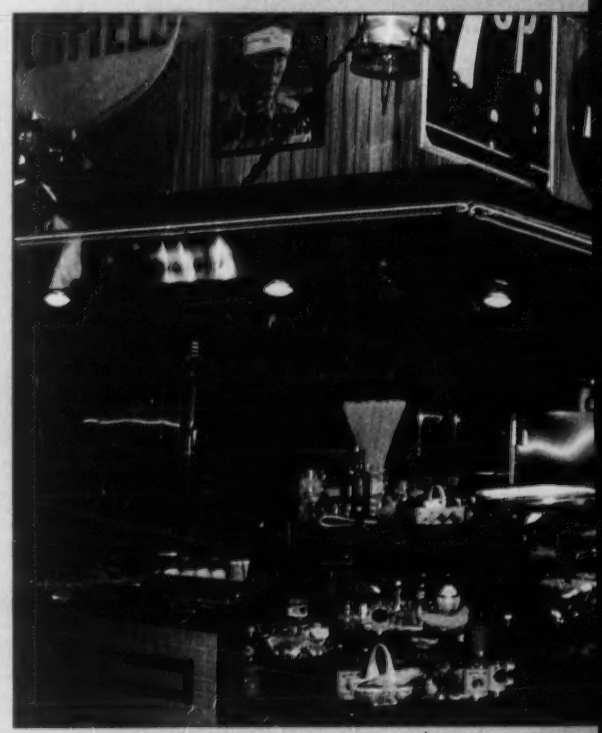
R&I GROWTH COMPANIES

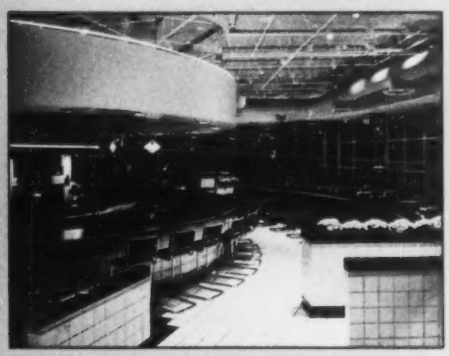
10 GREAT GROWTH CHAINS

The industry's highest fliers share their secrets for soaring in today's turbulent market.

Subway hurtles toward 8,000-store mark.



Spaghetti Warehouse has big franchise plans.



California Pizza Kitchen, PepsiCo team.

The Olive Garden wins with local focus.

Comparing this year's Great Growth Chains reveals one truth: There are many roads to success. Still, our 20th group of growth chains shares some important traits, among them a strong value orientation and a well-defined niche in the marketplace.

At Chevys and Outback, fun, rustic decors keep capital costs low and help both chains deliver value. Checkers' modular buildings achieve the same result. Both Checkers and Outback offer operating returns on investment approaching an incredible 40%. And Outback's food costs run 40% of sales, among the highest in its segment.

With its oversized portions, moderate prices, and bottomless soups and salads, The Olive Garden is another chain setting standards for value. And Golden Corral highlights value with its all-you-can-eat Golden Choice Buffet.

Because company stores provide greater returns than do franchised units, most of *R&I*'s Great Growth Chains are accelerating company-store development. Applebee's says it will raise company restaurants to 40% of its system from 12%. Checkers' long-term strategy calls for increasing company stores to 50% of its system from its current 35%. Outback plans an acquisition of its joint-venture partner in Washington, where eight Outback Steak Houses are open or soon to be. And The Olive Garden, Cracker Barrel and Chevys open company stores exclusively.

Is franchising falling from favor? Not likely, operators say. Although complex concepts like The Olive Garden extol the quality control of company operations, franchising is going strong. Franchisor Subway has boomed with its low-cost, easily replicated format. And Applebee's has created a new financing pool to help encourage existing and potential franchisees to build new stores. Golden Corral and Checkers both are selling new franchises, and Spaghetti Warehouse recently signed its first franchise agreements. **—Rajan Chaudhry**

1992 ALL STAR GROWTH CHAINS

APPLEBEE'S NEIGHBORHOOD GRILL & BAR
Kansas City, Mo.

CALIFORNIA PIZZA KITCHEN
Los Angeles

CHECKERS DRIVE-IN RESTAURANTS
Clearwater, Fla.

CHEVYS MEXICAN RESTAURANTS
San Francisco

CRACKER BARREL OLD COUNTRY STORE
Lebanon, Tenn.

GOLDEN CORRAL FAMILY STEAK HOUSE
Raleigh, N.C.

THE OLIVE GARDEN
Orlando, Fla.

OUTBACK STEAK HOUSES
Tampa, Fla.

SPAGHETTI WAREHOUSE
Garland, Texas

SUBWAY SANDWICHES & SALADS
Milford, Conn.

continued on page 94

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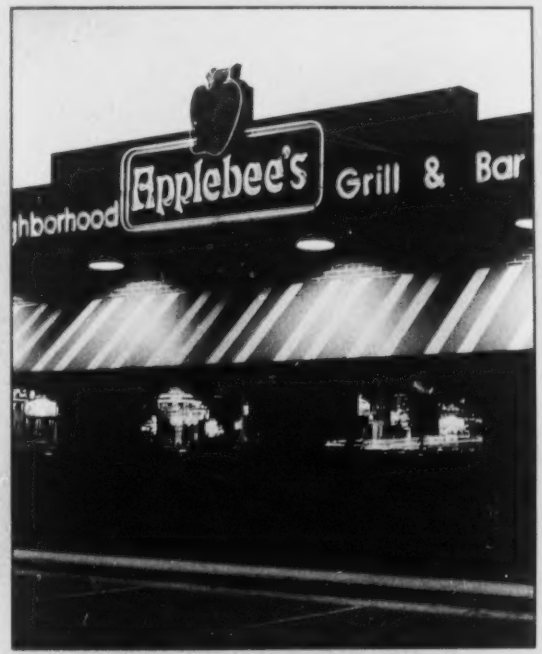
Applebee's ups the number of company-owned stores to cash in on its success.

Applebee's International, Kansas City, Mo., has a lofty goal: to become the leading and most successful chain of casual-dining restaurants. The company's plan to expand company-owned stores and franchise operations to accomplish this mission is well underway; 1992 already has seen 27 new Applebee's Neighborhood Grill & Bar units and 12 more are under construction.

This aggressive expansion comes after a very good year—the chain posted a 27% sales increase, to $290 million, in 1991. To keep up the pace of 40 to 50 new units a year, however, Applebee's is seeking investors to fund franchisees, says Chief Operating Officer Kenneth Hill.



Applebee's Neighborhood Grill & Bar units are presently primarily franchise operated (above). Company President Abe J. Gustin (L.) has been a director of Applebee's International since it was formed in 1988.

LEADERSHIP

■ Abe J. Gustin has been a director of Applebee's since the chain's inception in September 1983. He also served as chairman until January 1988 and vice president from November 1987 to January 1988. He became president in January 1988, when he led a group of investors in buying Applebee's from W.R. Grace.

■ Kenneth Hill, executive vice president and chief operating officer, worked for 17 years at Gilbert/Robinson—12 of them as president—during which time the Kansas City, Mo.-based company developed Houlihan's. He also served as president and CEO of T.J. Cinnamons Ltd. from 1985 to 1990.

GROWTH

■ At the end of 1991, had 191 units, 23 of which were company-owned.

■ So far this year, 27 units have opened and 12 more are under construction.

■ The mix of company-owned to franchised stores will increase to 40% from 12% in next five years.

■ 1991 net earnings were $3.81 million.

MENUS & MARKETING

■ The mid-priced menu is somewhat limited to ensure quick service.

■ 60% of the menu is fixed and 40% is available to be customized by franchisees from a company-tested and -approved list.

■ Riblets (barbecued custom cuts of pork) are the top-selling entree. In company-owned restaurants, the riblet platter sells for about $7.79 and the basket, about $5.69.

■ Marketing efforts revolve around five food-specific campaigns per year, two of which are backed by national advertising.

■ Company-owned stores have only increased prices 1.5% in three years.

LABOR

■ Managers and executive management have an incentive bonus program based on store operating data.

■ Franchisees have flexibility to build free-standing, end cap or regional mall units. Franchise start-up costs average $850,000, excluding real estate.

CHALLENGES

■ Hill says franchise financing and the availability of cash are Applebee's biggest challenges. The company is developing a pool of funds from investment sources outside the company.

—Brenda McCarthy

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California Pizza Kitchen capitalizes on a PepsiCo partnership with plans for free-standing units.

"We didn't get bought, we got bought into," says Larry Flax, California Pizza Kitchen's co-president, of the company's partnership with PepsiCo. The fifty-fifty partnership formed in May 1991 has the Beverly Hills, Calif.-based company poised for growth. CPK is eager for the freedom PepsiCo's real estate resources will allow them in site selection. For the first time in the company's seven-year history, expansion will concentrate on free-standing units.

The prototype free-standing unit, opened in June in Solana Beach, Calif., serves CPK's evolving menu of specialty pizzas—including cheeseless varieties—pasta and salads in a 150-seat, 5,000-square-foot restaurant.

With four more units to be added in 1992, CPK projects sales for all units to reach $77 million. They ended 1991 with sales of more than $50 million.

LEADERSHIP

Larry Flax and Rick Rosenfield are co-chairmen, co-presidents and CEOs of CPK. They both are trial lawyers, and their only restaurant experience is as customers. They met in the U.S. attorney's office in 1971, and in 1973 formed their own practice. After many conversations that evolved into the CPK concept, they opened their first unit in 1985.

An eclectic spread of California Pizza Kitchen's signature pizzas (above). (L.) Larry Flax (l.) and Rick Rosenfield sit at the newest free-standing unit in Solana Beach, Calif.

GROWTH

- First unit opened in Beverly Hills in 1985.
- Now operating 26 units.
- Will open another four in 1992.
- Will open a minimum of 15 in 1993.
- Will open a minimum of 24 in 1994.
- Opening in new markets, but also clustering existing ones, such as Atlanta; Glendale, Calif.; and Honolulu.
- Most units are in malls, but company now is adding more free-standing units.

MENUS & MARKETING

- Sells pasta dishes, salads and eclectic pizzas cooked in wood-fired ovens.
- All items cost less than $10.
- Tries to marry the flavors and food preferences of the American palate with the "canvas" of pizza dough.
- Have recently added more purely Italian pizzas—to follow America's love affair with Italian food.
- Marketing strategy depends almost solely on word of mouth.

LABOR

- Describes its corporate culture with the acronym ROCK—Respect, Opportunity, Communication and Kindness.
- Recent purchase by PepsiCo is initiating new non-stock incentive plans: cash bonuses, profit-sharing and pension plans.
- Managers have a ground-floor opportunity in the company.
- Promotions come to the corporate level from the restaurant management level.

CHALLENGES

- Growth itself will challenge the maintenance of quality in service and product, which are so heavily depended upon to generate word-of-mouth advertising. Also, increasing use of wood-fired ovens by competition decreases the novelty of CPK's pizzas. **—B.M.**

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Low-price food and low-cost units add up to big success for Checkers Drive-In Restaurants.

The broadening of menus at traditional burger chains has created new opportunities for strong niche players. Checkers Drive-In Restaurants—a double-drive-thru concept offering a limited menu, quick service and low prices—is among a handful of rapidly growing burger chains taking fast food back to its roots. For 1992, Checkers projects a 114% increase in systemwide sales to $157 million.

(Above) Checkers uses modular buildings to keep investment costs down. As a result, the chain's unit economics are among the best in the industry. (L.) Checkers President and Chief Executive Officer James Mattei.

LEADERSHIP

■ Herbert G. Brown, 68, chairman since February 1989. For more than 40 years prior to July 1988, served as chairman of Brown Furniture Stores. Selected as Florida's Retail Entrepreneur of the Year, 1991. Elected to Tampa Bay Business Hall of Fame, 1992.

■ James E. Mattei, 43, cofounder. Chief executive officer since February 1989 and president since April 1990. Chairman and president from the company's inception through January 1989.

GROWTH

■ The chain, with more than 150 total restaurants, is on track to add 101 units this year, mostly in the Southeast.

■ Proceeds of about $36 million from a recent public stock offering will provide funds for accelerating company-store development. According to Chief Financial Officer Paul Campbell, long-term plans include raising company-owned units to 50% of the system from the current 35%.

■ The company also derives revenue through its subsidiary, Champion Modular Restaurant Co., which manufactures the system's buildings.

■ Systemwide sales swelled 104% to $73.5 million in 1991.

■ Units grew by 61, or 109%, to 117.

■ Net income advanced 125% to $3.3 million.

MENUS & MARKETING

■ Limited, consisting of quarter-pound hamburgers, cheeseburgers, bacon cheeseburgers, seasoned fries, hot dogs, chicken and fish sandwiches, soft drinks and old-fashioned premium milk shakes.

■ Burgers are normally priced from 99 cents to $1.99. Average check is $3.40.

■ The company's goal is to develop enough units in each market to use radio and, in some cases, TV ads.

■ Because of the chain's low penetration in most markets, advertising is generally store-level.

BUILDINGS

■ The company's unit economics are among the best in the business. Exclusive of land and franchise fees, buildings cost $438,000, resulting in about a 2-to-1 sales to investment ratio.

■ Restaurants use 1950s art deco diner theme. All feature black and white tile in a checkerboard pattern, glass-block corners and red aluminum columns ringed with white neon lights.

■ Systemwide, average unit volumes run $919,000.

LABOR

■ Monthly bonuses for unit managers and assistant managers are based on sales and profits. To qualify, managers must undergo corporate review and units must score at least 85% in the areas of hospitality, service, quality and cleanliness.

■ A stock option plan also extends to the unit manager level.

CHALLENGES

■ Increasing competition within niche from specialists like Rally's and PepsiCo-owned Hot 'n Now, as well as from established burger chains like McDonald's and Burger King that are testing the double-drive-thru format. —R.C.

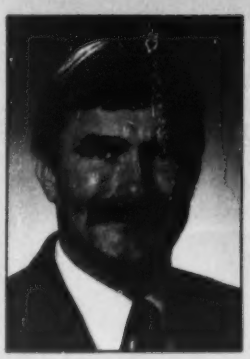
continued from page 102

Chevys' "Fresh Mex" pledge attracts loyal customers and staff—and pays off in profits.

The first item customers spy on the menu at San Francisco-based Chevys is its "Fresh Mex" pledge. The no-cans, no-frozen meats, cholesterol-conscious Mexican restaurant runs a higher food cost putting all-fresh items on the tables, but management says it's paying off. In 1991, total sales were $70 million; since Day One the company has been debt-free.

Chevys CEO Mike Hislop admits that the higher food cost gives atmosphere second priority. But the chain puts less money into its friendly, border cantina-style buildings for another reason: The casual, kid-friendly (and -proof) atmosphere helps attract the target customers, 25- to 49-year-olds with children. An even stronger draw is the kid's menu added this year: All items are priced below $2.95, and offer the same fresh ingredients as the adult menu.

The Fresh Mex pledge extends to the chain's marketing efforts, too. In 1991, Chevys came up with Fresh TV. The commercials were shot, edited and aired all in the same day—and never were used again.



The Plato Gordo (above) from San Francisco-based Chevys is a three- to four-person serving of beef, chicken, quail and jumbo shrimp fajitas. CEO Mike Hislop (l.) helped the six-year-old chain post average unit volumes of $2.5 million in 1991—with ten new units opening in the same year.

LEADERSHIP

Mike Hislop, CEO, Chairman of the Board and President, joined Chevys in April 1991. He spent eight years as CEO of the Restaurant Enterprises Group's El Torito, and was a regional manager of T.G.I. Friday's for three years before that.

GROWTH

- First unit opened in 1986.
- Currently operates 34 units.
- Opened 10 in 1991.
- Opening five in 1992.
- Will open 15 in 1993.
- Stopped Northern California expansion in 1992 and started in Southern California.
- Will expand to other states in 1993.
- Operates store-front and free-standing units.

MENUS & MARKETING

- "Fresh Mex" pledge: Flour tortillas are served within three minutes of baking; no frozen meats are used; salsa is made hourly; foods are fried in cholesterol-free canola oil; guacamole is made daily from fresh avocados; tamales are hand-made each morning; fresh lime juice is used in the margaritas and other drinks.
- Food cost is in the mid-30s—4% to 5% higher than most Mexican chains.
- All lunch items cost between $4.95 and $6.95.
- Dinner prices range between $6.95 and $13.95.
- Fajitas are the top seller.
- Marketing efforts are highlighted by its award-winning "Fresh TV" commercials—the commercials were shot and aired on the same day.
- Billboards and cab tops round out the grass-roots marketing program.

LABOR

- Runs only company-owned stores.
- All new employees have a three-month training period.
- All employees are empowered to guarantee customers 100% satisfaction.
- All general managers and kitchen managers own stock in the company.
- Manager turnover is "practically nonexistent."
- Managers have five-day work weeks.
- Each restaurant has five or six managers.
- Chevys' store shopper program has an unidentified "shopper" rate the stores for cleanliness and overall service.
- Manager bonus program is based on store sales, profits and store shopper scores.

CHALLENGES

- High food cost and high labor cost, while attracting loyal customers and employees, might work against Chevys in an uncertain economy. **—B.M.**

continued from page 106

Old-fashioned ideas fuel Cracker Barrel's out-of-sight sales growth and profit increases.

Jack's beanstalk couldn't grow much faster than Cracker Barrel Old Country Stores. Last year, the Lebanon, Tenn.-based chain managed to increase sales 33%, while it watched its profits shoot up 50%.

It's not magic, though, that feeds the chain's expansion. In fact, there's nothing new or unusual about the chain's menu and marketing strategies. "The thing that sets us apart is that we don't change things much. We're predictable," says O.E. Philpot, vice president of marketing. That consistency keeps customers coming back, too. In a survey this past spring, more than 90% of customers said they would return to the restaurant.

Consistency in food and service keeps Cracker Barrel customers coming back. (L.) CEO Dan Evins started the chain by offering home-cooked food to his gas-station customers.

LEADERSHIP

- Dan Evins, president and CEO, founded Cracker Barrel in 1969, after acting as president and CEO of Consolidated Oil. How did he get into the restaurant business? Evins decided that home-cooked food was the best way to lure folks into his gas stations.
- Jimmie White, senior vice president and CFO since 1985.
- Don Turner, senior vice president and COO since 1979.

GROWTH

- After grossing more than $300 million in sales last year, the chain hopes to increase that number by adding 21 new stores this year.
- Will continue building along the interstate, and might target more tourist destinations for new sites.
- 127 current units, all company owned.
- 18 stores opened in 1991.
- Unit volumes average $2.7 million for the restaurants and $675,000 for the gift shops.
- Unit size: 9,700 square feet, 176 seats.

MENUS & MARKETING

- Best sellers on the menu are the same old favorites: chicken and dumplings ($5.19), country fried steak ($5.49), and the roast beef dinner ($6.99). "As a category, our country meal plates sell best," says Mark Tanzer, vice president of product development.
- The chain's gift store, which sells everything from candy to wood crafts, is responsible for 20% of total sales, says Philpot.
- Due to its locations along the interstate, the chain uses outdoor billboards for an estimated 55% of advertising. Total advertising costs are 2% of annual sales.

LABOR

- Each Cracker Barrel unit has one general manager, a minimum of three associate managers, a gift shop manager and approximately 85 employees on two shifts.
- All managers are required to take a 10-week training course at company headquarters.
- By completing certain training, all employees have the opportunity to earn "additionals," including selection of vacation days, insurance benefits and employee stock options.

CHALLENGES

- Publicity over the firing of homosexuals has made Cracker Barrel a target of gay-rights protesters and might come back to haunt the chain as it expands.

—Karen Cheney

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Golden Corral sees golden opportunities with its new Metro Market unit.

Raleigh, N.C.-based Golden Corral has created a growth concept that fulfills its mission statement of "making pleasurable dining affordable" while beefing up its bottom line.

Its Metro Market unit, a new 10,000-square-foot restaurant that seats 450, has twice as many seats as its smaller stores. It also is designed with the customer in mind. More than 100 items are available on the Golden Choice Buffet, the centerpiece of the restaurant, including fresh-from-the-oven baked goods made in the customer's view.

With the Metro Market as its primary growth vehicle, Golden Corral plans to top 1991's systemwide sales of $449 million, a 27% jump over last year's sales.

Golden Corral's marinated steak (above) is one of the restaurants' more popular entrees. (L.) CEO and President Theodore M. Fowler has served as a director of the company since 1984.

LEADERSHIP

■ James H. Maynard is Golden Corral's treasurer and chairman. He was first elected a director of the steakhouse chain in 1972, the same year he co-founded Golden Corral Corp.

■ Theodore M. Fowler is president, CEO and a director. He has served as a director since 1984, the year he was promoted to president. From 1981 to 1984, Fowler was Golden Corral Corp. vice president.

GROWTH

■ Opened first unit in 1973.

■ Now operates 350 company-owned units and 80 franchised units.

■ The company's growth vehicle is its larger Metro Market unit—a restaurant that seats approximately 450. Over the next two years, 60% to 70% of the franchised units that open will be Metro Markets.

MENUS & MARKETING

■ Emphasis is on quality food such as USDA choice-grade beef.

■ Menu boards are used instead of table menus.

■ The Golden Choice Buffet is the highlight of the restaurant. It holds 120 to 170 all-you-can-eat items and is ordered by more than 50% of customers.

■ Customers can choose between the Golden Choice Buffet and a plated entree.

■ The Brass Bell Bakery is part of the buffet and serves freshly baked goods from a display area.

■ Metro Market store all-day checks average $5.50. Small store (5,000 square feet) checks average $6.

■ Most media decisions are made locally, but the company provides a complete radio, TV and print program.

LABOR

■ In company-owned units, partner managers may purchase up to a 20% interest in the restaurant.

■ Franchisees operate under a standard agreement and pay a 4% royalty fee.

■ Franchise start-up fee for a small restaurant is $20,000. For the Metro Market unit, $40,000.

■ Total franchise start-up costs average $1.8 million.

■ Wait staff is empowered to guarantee 100% customer satisfaction.

CHALLENGES

■ The cost of land and building equipment for continued development of 10,000-square-foot units is one barrier to growth. Maintaining quality and the perception of quality on a large scale also will challenge the company. **—B.M.**

continued from page 110

The Olive Garden is winning America with big portions, modest prices and "hospitaliano."

The Olive Garden, Orlando, Fla., is living proof that top chains can grow quickly without sacrificing standards.

One key to the chain's success is its ability to blend the hospitality of a neighborhood restaurant with the efficiencies of a chain. "We look at The Olive Garden as a series of individual restaurant businesses, which, when added together, equal one business," says Charles Tate, vice president of consumer affairs.

LEADERSHIP

Ronald N. Magruder, president since 1987. Joined General Mills' Red Lobster chain in 1972. He was named vice president, international growth and development, overseeing Red Lobster's expansion in Japan and Canada, in 1981.

GROWTH

- During the year ended May 1991, The Olive Garden opened 71 restaurants, bringing its total to 341 in the United States and Canada. In the United States alone, the chain plans to add 60 restaurants this year.
- During its most recent fiscal year, U.S. sales advanced 32% to $807 million.
- All stores are company-owned and -operated.

MENUS & MARKETING

- Television—local spot buys—is the chain's primary advertising medium.
- The Olive Garden holds three "menu events" a year, featuring regions of Italy. They are designed both to keep the menu fresh for regular customers and to attract new guests.
- The chain also stresses regional and store-level marketing. It employs two dozen public relations agencies nationwide to assist local marketing managers with community events and tie-ins.
- The Olive Garden's signature items include house-made pasta, garlic breadsticks and bottomless garden salads as well as bowls of house-made soup.
- Lunch prices range from $3.95 for all-you-can-eat soup, salad and breadsticks, to about $7. Entree prices at dinner run $7 to $13.
- As with its marketing, the chain localizes its menu. The Olive Garden often has more than 100 different menus in circulation at any one time, says Tate.

(Above) The Olive Garden's signature menu items include house-made pasta, garlic breadsticks and bottomless garden salads. (L.) President Ron Magruder.

LABOR

- Even in the area of labor, the focus is local. It hires all its managers from areas surrounding its stores. Unlike most chains, The Olive Garden does not relocate its managers, he says.
- Managers incentives are based on gross sales and operating profits. They can earn bonus money for high quality-assurance scores.
- Servers receive raises when they pass $25,000 in sales and again at $50,000, $100,000 and each $100,000 thereafter.
- The Olive Garden often staffs higher than many of its competitors, adding extra people to each shift to ensure that service won't suffer if the restaurants receive a surge of guests.

CHALLENGES

- Staying in touch with its customers and maintaining the culture that has made the chain dominant in its segment. The Olive Garden recognizes the importance of the intangible in its mission statement and gives it a name: "Hospitaliano." **—R.C.**

continued from page 112

Outback tries to strike the competition with explosive growth and a meat-and-potatoes menu.

Tampa, Fla.-based Outback Steakhouse lifts its name from the Australian landscape and its menu concept from American favorites. The combination has made the four-year-old company one of the leaders in the burgeoning breed of steakhouses entering the casual-dining market.

What's casual? The decor—cheerful with Australian accents. And the prices—check averages hover around $15, including liquor.

"We're very food-driven, value-driven and service-driven. That's why we're doing well," says Robert T. Basham, president and CEO of Outback.

"Well" is an understatement. Outback's growth could be described as explosive. It has grown from one unit to 60 in four years. During a time when "healthful food" is making headlines, customers are forming lines outside of Outback units to buy their specially seasoned steaks.

Those lines translated to $91 million in sales for 1991.

(Above) Outback's Bloomin' Onion. (L.) J. Timothy Gannon (from l.), Robert T. Basham, Chris T. Sullivan.

LEADERSHIP

■ Outback's co-founders, Chairman and CEO Chris T. Sullivan and President and COO Robert T. Basham, followed nearly matching foodservice paths prior to their current Aussie venture. Both worked as founding stockholders, directors and vice presidents for Sunstate Restaurant Corporation, which developed, as a franchisee, 17 Chili's Grill & Bar restaurants. Chili's acquired the franchisee in January 1987. Sullivan left and Basham became Regional Operations Director for Chili's until August 1987, when they started Outback. Prior to Sunstate, both worked for Bennigan's. Both also began their restaurant careers as manager trainees at Steak & Ale; Sullivan in 1972 and Basham in 1973.

■ J. Timothy Gannon, vice president of operations, joined the company in January 1988. From 1984 to 1987 he was a restaurant group vice president and director of development for Al Copeland Enterprises. From 1973 to 1974 he worked at several restaurant chains. His restaurant career also began as a manager trainee at Steak & Ale in 1973.

GROWTH

■ Opened first store in March 1988.

■ Opened 26 in 1991.

■ 60 units are now operating.

■ Plans to open 30 per year until 1995.

■ Went public in 1991.

■ Systemwide sales increased 167% in 1991.

■ In 1991, net income increased to $5.2 million (52 cents per share) from $2.4 million (28 cents per share).

MENUS & MARKETING

■ 60% of the menu is beef.

■ Menu also offers chicken, ribs and pasta.

■ Biggest selling appetizer is the Bloomin' Onion ($4.90), which makes up more than 60% of "Aussie-tizer" orders.

■ Dinner-only menu.

■ Food cost is a little more than 40%.

LABOR

■ Most units are company-owned, some franchised and some fifty-fifty joint ventures.

■ Every general manager pays $25,000 for 10% equity interest in the restaurant, which they receive in addition to salary.

■ Area managers also have an equity interest in the units in their areas and handle hiring and marketing on a local basis.

CHALLENGES

■ Basham says the factors beyond Outback's control—the government and legislation—are the biggest foes to potential growth. High food costs and the impact of inflation also could have an adverse affect in the future with possible price increases resulting. **—B.M.**

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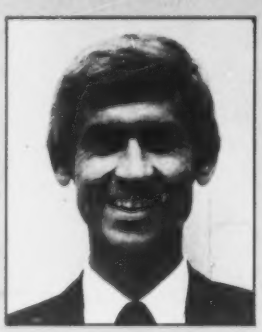
Spaghetti Warehouse hits the growth curve running with an eye on new geographic markets.

Spaghetti Warehouse, Garland, Texas, has offered home-style cooking at low prices in downtown areas since 1972. After a gradual growth period leading to its current stable of 25 company-owned units, it is hitting a strong growth pattern of opening 30% to 33% more units each year. Fueled by an average unit volume of $2.6 million and systemwide fiscal 1991 sales of $43 million, Spaghetti Warehouse is expanding to new geographic areas.

Franchising is on the horizon, too, as of June, when it acquired Old Spaghetti Factory (Canada) Ltd. for $3.77 million (U.S.). The two concepts are very similar, and the acquired subsidiary will not be altered in concept, decor, menu or operating style.

LEADERSHIP

Louis P. Neeb, president and CEO, began his restaurant career after 10 years of working in the federal government under the Nixon and Johnson administrations. In 1973 he became chief operating officer at Steak & Ale. In 1980, he became chairman and chief executive of Burger King, then owned by Pillsbury. Two years later he joined W.R. Grace Company's fast-food division, which developed into Applebee's. He left in 1987 to become a Pizzeria Uno franchisee, an operation in which he still has an interest. In 1989, he joined the board of Spaghetti Warehouse. He became president and CEO in July 1991.



(Above) Spaghetti Warehouse, Garland, Texas, serves up home-style Italian food at low prices. President and CEO Lou Neeb (l.) joined the chain in July 1991.

GROWTH

- Opened first unit in 1972.
- Went public in 1985.
- Now operates 25 units.
- Plans to add 30% to 33% more units per year for the next few years.
- Profits were just less than $4 million in 1991.
- Analysts predict 1992 profits to be $5.7 million.
- As of 1991, the company is debt-free.

MENUS & MARKETING

- Home-style pasta dishes are made from scratch.
- Spaghetti dishes are the top sellers—all are priced between $3.95 and $5.50.
- The average lunch check is $5.81; dinner, $8.19.
- Many local signature items pepper the decor of each restaurant.
- Company targets business lunchers and families at dinner with local radio and print advertising, direct mail and other promotions.
- Last year, the company spent 2.7% of revenues on advertising.

LABOR

- Restaurant managers receive salary plus a bonus based on customer counts and profit performance of their restaurants.
- General managers are eligible for stock options after one year of satisfactory service.
- All units are company-operated, but franchises will open next year in the United States and Canada.

CHALLENGES

- The competition in the Italian segment is increasing, and that could pull customers away from Spaghetti Warehouse. Because most restaurants are located in large cities, the company is affected by the economic health of major downtown areas. **—B.M.**

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Subway's "fresh" approach to sandwiches keeps the chain rolling toward its 8,000-store goal.

With its popular menu, low investment costs and simple operations, Subway has opened the door to thousands of young entrepreneurs and proven its ability to remain among the fastest-growing chains in America.

For 1992, Subway projects systemwide sales of $1.8 billion, up more than 28% over 1991.

LEADERSHIP

■ Fred DeLuca, 44, co-president. Co-founded the chain in 1965 at age 17. "The only job I'd ever had was as a stock boy in a hardware store."

■ Peter Buck, 61, co-founder, co-president. Nuclear physicist who gave DeLuca $1,000 to open his first store.

GROWTH

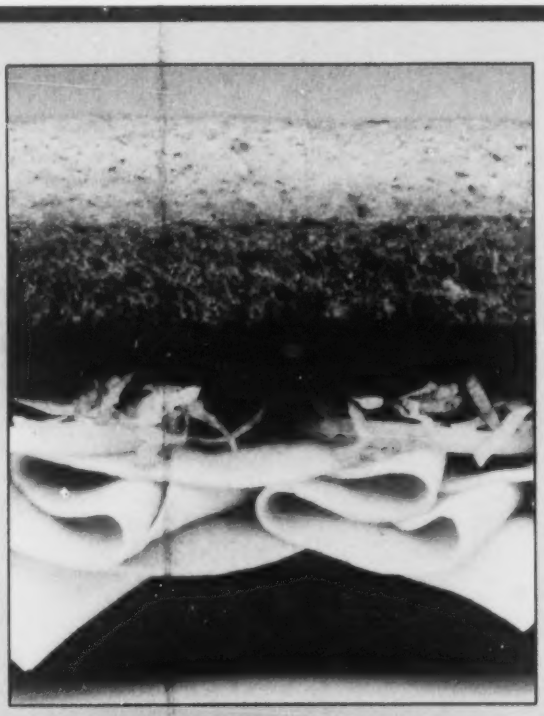
■ Subway's now-familiar battle cry is "8,000 stores by 1995." In 1991, it added more than 1,000 new stores, bringing its worldwide year-end total to 6,187. It expects to reach the 8,000 mark by 1993. All but one of Subway's current 6,800 units are franchised.

■ International opportunities are increasingly important. Canada is the chain's major international market. By the end of 1993, 500 units will be open there.

■ In recent years, existing franchisees have accounted for half of the system's unit growth. Subway encourages franchisees to develop new stores rapidly by cutting the franchise fee for additional stores: Franchise fees for initial Subways are $10,000. Fees for second stores are $2,500.

■ The cost of opening a restaurant is relatively low, about $75,000, and average unit volumes run about $270,000. AUVs are up about 9% year-to-date, says DeLuca.

■ Subway plans a limited test of mobile units.



Fred DeLuca (l.) parlayed $1,000 into one of the largest, fastest growing chains in the world. This year, he expects systemwide sales to reach $1.8 billion.

MENUS & MARKETING

■ Subway recently began investing heavily in national advertising. DeLuca anticipates that soon half of the chain's ad dollars will go toward national advertising.

■ Franchise owners pay 2½% of sales to Subway's marketing fund.

■ The chain's TV buys reflect its core customer base: about 53% male and 18 to 34 years old.

■ Subway's menu effectively plays on the trend toward more healthful eating, emphasizing submarine sandwiches made with fresh-baked bread and fresh ingredients.

■ Subway is rolling out new 4-inch Value Rounds sandwiches aimed at broadening its customer base to include more children, teens and women. Prices range from 79 cents to $1.39.

■ The chain has made its $1.99 Kids Paks mandatory items. They feature a 4-inch round sandwich, a cookie, a small drink and an optional premium.

■ Subway recently added Veggies & Cheese and Roast Chicken Breast sandwiches to the menu to reinforce its "healthy" image. The chain will introduce new, simpler menu boards Sept. 1.

CHALLENGES

■ A growing number of broad-menu chains, including McDonald's and Arby's, now offer sub sandwiches. Still, DeLuca maintains that Subway's business will benefit from any advertising of sub sandwiches.

■ Mastering the complexities of international expansion. **—R.C.**

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Two wood-burning ovens in each Italian Oven restaurant turn out crisp-crust specialty pizzas.

AGGRESSIVE UPSTARTS

A dozen concepts cook up hot menus and big expansion plans.

At first glance, the newest chains might not look much different than their older, bigger competitors. But this year's aggressive upstarts add unique ingredients to the mix.

The Italian Oven, hoping for the success of The Olive Garden, features not one, but two wood-burning ovens. Lone Star Steakhouse gets 85% of its sales from beef—no food bars at these restaurants. Read on for more points of difference.

THE ITALIAN OVEN
Somerset, Pa.
1991 sales, $6.0 million; units, 25; AUV, N/A; check average, $8.

In 1989, The Italian Oven's founder Jim Frye set out to offer spaghetti and meatballs at a reasonable price. Three years later, The Italian Oven's innovations are as plentiful as the meatballs on the spaghetti.

For instance, the kids' menu was designed by a real kid, Frye's 7-year-old son. Kids even get their own club (fourth meal's free)—unusual for a full-service restaurant—and baby food is available to parents free upon request.

The bounty of kid-friendly accoutrements stems from the fact that Frye and his wife have three sons, and know that baby boomers look for such accommodations. But the menu has a decidedly adult flavor: Aside from the spaghetti and meatballs ($5.50), the chain cooks up gourmet pizzas in two wood-burning ovens (grilled chicken and spinach is a favorite at $9.25 for a 12-in. pie). Pasta with mush-

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Food is the focus, from Lone Star's steaks to Lettuce Souprise You's fresh muffins.

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rooms and garlic is another favorite ($5.50).

The Italian Oven plans to have 50 units open in 16 states by the end of this year, and post sales of at least $25 million. Most of the expansion will be done through franchising, at a cost of about $350,000 per store. Now, most Italian Oven stores are in Pennsylvania and Ohio. New units will open in New York, New Jersey, Florida and Kentucky.

LONE STAR STEAKHOUSE & SALOON
Wichita, Kansas
1991 sales, $11.3 million; units, 11; AUV, $2.7 million; check average, lunch $7.50, dinner $17.50.

"We really sell and focus on steaks—80% to 85% of our sales are steaks," says Doug Glendenning, chief operating officer of Lone Star.

That's quite a gamble on the popularity of beef, but it's paying off for the 11-unit chain. Sales for 1992 are projected at $30 million.

Proceeds reaching nearly $14 million from a recent stock offering will be used to fund Lone Star's expansion into new and old markets such as Springfield, Miss.; Little Rock, Ark.; and Las Vegas.

Lone Star's dining room is a casual roadhouse atmosphere—"It screams Texas," says Glendenning—and steaks have a strong presence in a display case. Patrons have the option of choosing their own steaks.

Lone Star's casual roadhouse atmosphere "screams Texas," executives say.

The 16-oz. rib-eye steak ($15.95) and the 9-oz. filet ($13.95) are two top sellers.

Lone Star's management team has four members that hail from Coulter Enterprises, including Jamie B. Coulter, chairman, CEO and president of Lone Star.

LETTUCE SOUPRISE YOU
Atlanta
1991 sales, $6.5 million; units, 7; AUV, $1.3 million; check average, $6.

"Lettuce Souprise You is a mecca for starving students," says Meg Kannin, a student living in Atlanta. And no wonder. For $5.95 at lunch and $6.45 at dinner, patrons can stuff themselves with salad, soup and a stuffed baked potato, with fruit and bakery goods compliments of the house. The four soups offered each day come from a rotating menu of 35; the five muffins, from a stock of 40.

The 5-year-old Atlanta-based chain also is a mecca for its managers, most of whom hold stock in the private company. "The ownership is what makes things happen," says David Dubrof, founder and president. By "things," Dubrof means spotless stores and top-quality food.

The units, all company-owned, offer food buffet-style. The focal point of each restaurant is the display bakery, in which employees make muffins all day. The stores offer a continental breakfast, lunch and dinner. The highest prices are for the soup-salad-potato combination. Salad alone is $4.95 at lunch and $5.45 at dinner; soup and potato, the same. Food costs run 30% to 31% of sales; labor, 28%.

Dubrof says the chain has planned "from Day One" to go public. In addition, he is making sure every change he makes would work as well were the chain 100 units strong. The Southeast and Southwest are areas targeted for expansion. Most new units, like the existing units, will be in strip malls.

ISLANDS
Costa Mesa, Calif.
1991 sales, $30.0 million; units, 13; AUV, $2.3 million; check average, $8.

Islands cropped up in Los Angeles in 1982 when "gourmet" hamburgers were *de rigueur* menu fare. Since then, 13 other company-owned units have opened in Southern California, and three deals are pending in Cerritos and Calabasas, Calif., and Dallas.

Licensing, not franchising, is the company's key to expansion. In November, Chart House Enterprises, Solana Beach, Calif., entered into a 40-year agreement to develop and operate at least 50 Islands over a 12-year period in California, Arizona, Florida and Hawaii. Chart House also optioned rights to open an additional 100 units in the Northeast. Big Wave, a

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Silver Diner's deco decor and Red Hot & Blue's Elvis touches appeal to baby boomers.

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Chart House subsidiary, will be the exclusive franchisee.

The free-standing restaurants, located near office buildings, theaters and residential neighborhoods, are targeted to the 26 to 45 age group. The menu includes a variety of half-pound burgers, priced from $3.95 to $5.65, plus a selection of salads, chicken sandwiches and soft tacos. Top sellers include the Big Wave, a plain burger with cheese, tomato and onion ($4.25), and the Northshore, a spicy chicken and Cheddar soft taco ($4.75). Food costs are 27% and labor costs, 22%.

RED HOT & BLUE
MEMPHIS PIT BAR-B-QUE
Arlington, Va.
1991 sales, $10.0 million; units, 10; AUV, $1.5 to $4.0 million; check average, $9.50.

This 6-year-old chain features barbecue ribs, pork shoulders and beef brisket with a Memphis twist. Elvis memorabilia graces the walls of the restaurants, and The King's music blares "much louder than usual," says Bob Friedman, chairman and president.

Fans seem to like it, though: The 10 restaurants (all but one franchised), are located primarily in strip malls up and down the East Coast and post sales of $1.5 million to $4 million a year, depending on the location.

Friedman says the difference between Red Hot and competitors is the food quality: Food costs are 39% of sales, and the barbecue is "real"—the ribs aren't baked or steamed. "The other thing is that we've tied in the music and decor better than anyone else," Friedman adds. The Elvis touch in particular appeals to the target market of middle-income 21- to 45-year-olds.

Blues memorabilia attracts the Red Hot & Blue's 21- to 45-year-old target audience.

The most popular menu items are the ribs dinner ($10) and the pulled-pig sandwich ($4.95). Red Hot & Blue offers its fare in the restaurant, through a takeout window, and through third-party delivery services. The chain also caters.

The six additional units scheduled to open this year—at a cost of about $500,000 each—will be financed via venture capital groups and banks. Friedman sees a public offering a few years down the road, too.

AMERICA'S CHICKEN
Jericho, N.Y.
1991 sales, $1.5 million; units, 3; AUV, $500K; check average, $10.

Women age 25 to 49 are the primary target in advertisements for America's Chicken. "Research still says that the woman of the house makes the decision on what to eat," says Jack Freedman, president.

Perhaps women are more concerned about healthful eating, too. The seven-unit chain touts itself as the low-fat, low-cholesterol counterpart to its competitors. "Without sacrificing taste, we want to make our food as healthful as possible," says Freedman, who adds that all food is cooked in soybean oil and that the chicken is skinless.

Santa Fe chicken marinated in sweet garlic sauce and grilled over an open flame is a top seller. Sixteen pieces sell for $15.75, 12 for $11.95 and eight for $8.25.

Takeout and delivery make up 85% to 90% of sales because the in-line units seat only 24. "We try to encourage people to come in to get their orders by giving a dollar off," says Freedman. Delivery within a 2-mile radius costs $1, so the customer ends up saving at least $2 by picking up the food.

Gearing up for an aggressive expansion of 20 stores in the next 12 months, the chain recently began advertising in *U.S.A. Today*. The franchise fee is $25,000; Royalty payments are 4% of net sales and another 3% of net sales go into an advertising fund.

SILVER DINER
Rockville, Md.
1991 sales, $6.5 million; units, 3; AUV, $3.0 million; check average, $6.75.

Reeling off numbers like an auctioneer, Robert Giaimo, founder and co-owner of Silver Diner, proves that he has a super niche in chain restaurants. Customer counts are up 12% this year, tables turn 20 times on a Saturday, and about 12,000 people are served each week in just one restaurant.

"What is interesting about the Silver Diner is that it has the quality of food of specialty restaurants at family-dining prices," says Giaimo. "The Silver Diner bridges the gap between fast food and upscale." Top-selling menu items include hot roast turkey, stuffing and mashed potatoes for $6.25;

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Restaurants Unlimited's Zoopa and Palomino are poised for growth.

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meatloaf with vegetable gravy and mashed potatoes for $5.95; and chicken pot pie for $6.95. Delivery and takeout make up 5% of sales, though that number is expected to double this year.

While much has been made of the chain's art deco appearance and nostalgia appeal, Giaimo says that the customers return for the quality of the food and the restaurant's comfort.

Set to open this September in a shopping center outside Baltimore, the chain's fourth restaurant will be its first in-line model. Perhaps as early as this year, the chain also might begin selling franchises to large, multi-unit operators.

Silver Diner's art deco decor grabs customers' attention; great food holds it.

KOO KOO ROO
Los Angeles
1991 sales, $3.0 million; units, 12; AUV, $500K; check average, $6.50.

Mike and Ray Badalian debuted their whimsically named chicken chain, which features skinless, charbroiled chicken, in Los Angeles four years ago. After a slow period of two- or three-unit growth, the brothers added a dozen new stores in 1991. Since then, three have been shuttered due to poor location or capitalization. But the Badalians say they have learned from the mistakes.

Koo Koo Roo plans five new company stores by mid-1993, primarily in Southern California. It also has contracted for 33 franchised operations in Florida and Georgia within the next five years. The company hopes to sell four or five development contracts this year.

Koo Koo Roo fueled its growth efforts with a $5 million public stock offering last October. Its strategy is to shift away from fast food to a more casual dining concept by upgrading existing stores and expanding the menu to include rotisserie chicken, pesto pasta, chicken Caesar salad and a sandwich line.

Koo Koo Roo units typically are 2,000 square feet with 10 to 50 seats.

ZOOPA
Seattle
1991 sales, $2.5 million; units, 1; AUV, $2.5 million; check average, $6.75 lunch, $8 dinner.

Zoopa, a value-oriented, all-you-can-eat, soup-salad-pasta concept, represents a radical departure for Restaurants Unlimited. The 200-seat "marketeria," designed to reflect the feel of Seattle's famed Pike Place Market, boasts walk-up food stations, including bakery, fruit and dessert bars, where customers can pick and choose at leisure.

The menu changes weekly and spotlights five soups, three pastas and a build-your-own salad option. The latter is the top seller. Pricing is two-tiered: $5.75 for either salad, soup or pasta, or $5.95 for everything. Customers pay up front. Food and labor together run 50% to 56% of sales.

Construction costs for the 7,000-square-foot prototype, opened in the city's South Center regional shopping center in 1990, were an estimated $1.2 million. Future units will be slightly smaller to hold down operating expenses. Two openings are scheduled in the Puget Sound area within the next 12 months.

Restaurants Unlimited hopes to create a nationwide chain from the concept. Franchising is not a company policy, but in Zoopa's case, the possibility is under consideration.

PALOMINO
Seattle
1991 sales, $5.0 million; units, 2; AUV, $4.0 million; check average, $14 lunch, $24 dinner.

Mediterranean design and cuisine influence Palomino, a full-service concept from Restaurants Unlimited. Palomino, opened in Seattle in November 1989, rings up $4.5 million to $5 million annually. A second restaurant was unveiled in Minneapolis in October.

Marble countertops, coved ceilings, dark wood and

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Blossoming concepts like On The Border keep experimenting with popular foods.

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hand-blown glass art decorate the 280-seat restaurants. The large bar accounts for a third of sales in each unit. The display kitchens are equipped with an applewood-fired rotisserie and a wood-burning oven and grill. Popular sellers are seasoned rotisserie chicken and grilled king salmon. The menu also highlights thin-crust pizza and various pastas. Food and labor together run about 60% of sales.

Palomino, still in its formative stages, is being fine-tuned for expansion. When the concept is ready to go, the company conceivably could open two a year in the Puget Sound area. The concept would expand into urban locations near hotels, convention centers and theaters that attract strong daytime and early dinner traffic.

On The Border's new "ultimate fajita" dinner ($10.95) already is the chain's best seller.

HOMETOWN BUFFETS
Salt Lake City
1991 sales, N/A; units, 2; AUV, $2.0 million; check average, $5.30.

With a $3 million investment (a one-third interest) in HomeTown's parent, Americana Entertainment Group, JB's Restaurants, Salt Lake City, acquired exclusive rights to develop the concept in four western states in 1991: Arizona, New Mexico, Utah and Colorado. In early '92, the territory was expanded to include Nevada, Montana, Idaho and Wyoming. JB's goal is to open 10 units per year. Two units opened in Colorado Springs, Colo., and Phoenix this past spring. Two to three others will debut by year-end, with 17 slated for completion by September 1995. Americana will open 15 company-operated units within the same time frame.

Prime locations for expansion are strip malls, but free-standing units will be considered. In addition, 15 to 20 JB's have been earmarked for conversion to the Buffets system.

The concept is a scatter system with up to eight separate food islands in an all-you-can-eat format. The diverse menu features soups, salads, hot entrees, vegetables, desserts and nonalcoholic beverages. A display bakery offers fresh baked goods. The stores cost $850,000 to build. Food costs run 38%; labor, 26%.

ON THE BORDER
Dallas
1991 sales, $23.0 million; units, 10; AUV, $2.9 million; check average, $9.50.

A margarita served in a frosty mug is one of the new items that has helped boost check averages by 50 cents at On The Border. "Our liquor mix is high—30% of sales," says Mike Fiori, CEO and president, who adds that the large margarita is a favorite among customers.

During the spring, the 10-unit chain began a "product focus program," which involved creating a new menu. "We were trying to engineer a check increase without raising prices," says Fiori. Besides the new margaritas, On The Border introduced a spinach quesadilla appetizer ($5.95) and an "ultimate fajita" dinner ($10.95). The fajita combination of shrimp, steak, chicken breast and barbecue ribs, served with grilled potatoes and beans, already is a No. 1 seller.

"It really seems to be the play of the future—to get fresh food at under $10," says Fiori, who adds that On The Border's high-energy atmosphere attracts a slightly younger customer base than that of its competitors. "Our customer is a little better educated and a little more affluent," he adds.

The Dallas-based chain's public offering in April 1992 is helping fund an expansion of an estimated eight company restaurants by 1993. Fiori also has brought over a management team from Chi-Chi's, where he worked for 10 years before joining On The Border last year.

—Karen Cheney, Brenda McCarthy and Barbara Magan Dawson